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Joint Inspection Unit

Report of the Joint Inspection Unit on support costs related to extrabudgetary activities in organizations of the United Nations system

Note by the Secretary-General

Addendum

The Secretary-General has the honour to transmit for the consideration of the General Assembly his comments and those of the United Nations System Chief Executives Board for Coordination, on the report of the Joint Inspection Unit entitled "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3) (see A/57/442).

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Summary

The Joint Inspection Unit report entitled "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3) (see A/57/442) represents the latest work of the Unit on the subject following earlier studies it undertook in 1969, 1974, 1978 and 1990. Those studies examined traditional policies and practice in organizations of the United Nations system on cost measurement and recovery of support costs. The present Joint Inspection Unit report goes beyond that traditional analysis and uses a broader framework that looks at the recent policy environment, trends in the mobilization and use of extrabudgetary resources and the associated recovery of support costs. It also reviews cost-measurement methodologies from a policy perspective rather than just a technical perspective. Members of the United Nations System Chief Executives Board for Coordination welcome the report as a comprehensive and useful addition to the growing body of work on the subject. They appreciate in particular the background information provided as well as the analysis undertaken of current policies and procedures across the organizations of the United Nations system. They generally accept the findings and recommendations contained in the report and acknowledge the need to monitor, on a system-wide basis, emerging policy questions and procedures and to keep under review the overall management of extrabudgetary resources within the United Nations system.

I. Introduction

1. The report of the Joint Inspection Unit entitled "Support costs related to extrabudgetary activities in organizations of the United Nations system" (JIU/REP/2002/3) (see A/57/442) is the latest in a series of studies by the Unit on the subject. Its earlier studies in 1969, 1974, 1978 and 1990 focused on the traditional policies and established practices in organizations of the United Nations system pertaining to cost measurement and on the establishment of rates to be applied to the recovery of support costs. In contrast, the current report covers a broader perspective and examines the prevailing policy environment and trends across the organizations of the United Nations system. Among others, it deals with the question of the use of extrabudgetary contributions vis-à-vis regular or "core" programme resources of the organizations of the United Nations system. The report examines the practicalities of cost measurement and recommends an approach thereto.

II. General comments

2. Members of the United Nations System Chief Executives Board for Coordination (CEB) welcome the study as an informative and useful framework for revising, re-evaluating or fine-tuning prevailing policies on support costs related to extrabudgetary activities of the organizations of the United Nations system. They appreciate the detailed analysis of issues that are usually regarded as complex and politically sensitive, pertaining to the use of extrabudgetary contributions in relation to the regular budgets of the organizations of the system, the programming of extrabudgetary resources and the policies and procedures relating to the establishment and application of support costs. They also note in particular the important differences, as shown in the report, in the extrabudgetary policies and practices of United Nations organizations.

3. CEB members note that the utilization of extrabudgetary resources has been increasing in many organizations of the system for a variety of reasons. The most common factor seems to be the apparent trend towards declining regular or "core" resources in many such organizations. Another factor is the flexibility that extrabudgetary funding mechanisms offer to the organizations in order to respond to emergencies or unexpected demands for technical assistance from Member States.

4. CEB members concur with the observation in the report that the establishment and application of a single, system-wide support-cost rate, based upon a system-wide cost average that makes no distinction between cost structures, the types of extrabudgetary activity being supported and the nature of that support, would hardly have any present value. They do, however, support a degree of harmonization of the policies governing the establishment of support-cost rates and welcome the work of the Joint Inspection Unit in that regard.

5. CEB members note that the long-established practice in many organizations of the system of applying a flat rate, for example, 13 per cent of direct project costs as programme support costs, is no longer responsive to the needs of the organizations concerned. As a result executive heads are frequently compelled to grant derogations from the various support-cost rates. They take the view that a policy framework that would be more relevant and appropriate to the real needs of the

organizations of the system needs to be considered. A new framework, as outlined by the Joint Inspection Unit, would take into account the increasing diversity of the services now being provided by various such organizations and the requirement for greater flexibility so as to enable the organizations to respond effectively to urgent and unforeseen demands and at the same time ensure the necessary level of support-cost income.

6. CEB members note the strong willingness prevailing among the organizations of the system to engage in a system-wide consultation process in relation to the issues, findings and recommendations of the Joint Inspection Unit report. CEB members intend to consider suitable mechanisms at the working level, under the auspices of the two high-level committees of CEB, including the framework for the consultative process and for monitoring follow-up actions to the recommendations of the Joint Inspection Unit.

III. Comments on the recommendations

Recommendation 1

With a view to ensuring the effective use of extrabudgetary resources in support of mandated programmes, legislative organs may wish to request the executive heads of each organization to:

(a) Integrate extrabudgetary resources with core resources in budget presentations (as far as they have not already done so) and subject these resources, at least on terms of broad programmatic prioritization, to legislative approval;

(b) Accept extrabudgetary resources for activities beyond the reach of core budgets in line with the broad programmatic prioritization approved by legislative organs.

7. Recommendation 1 (a) is generally accepted by CEB members in the interest of promoting greater transparency in the presentation of programme budgets and to encourage clearer definition of programme priorities. However, some members of CEB expressed reservations as regards the practicality of subjecting extrabudgetary resources to long and difficult review and approval processes in their legislative bodies, especially considering that extrabudgetary figures are only indicative of what may be forthcoming from donors.

8. CEB members point out that in some organizations of the system extrabudgetary contributions are predominantly seen as contributing to the implementation of core programme activities and repairing deficiencies in core funding, especially those organizations that are facing zero or even negative growth in their core budgets and are thus depending increasingly on extrabudgetary contributions in the effort to deliver fully their main programmes. In that context, CEB members are of the view that there is a need for further clarification of recommendation 1 (b).

Recommendation 2

Executive heads should ensure that all incremental cost-measurement exercises clearly define what share of the costs associated with existing

administrative and other support structures are appropriately borne by core resources and what must be borne from extrabudgetary resources.

9. Recommendation 2 is generally acceptable.

Recommendation 3

Executive heads should give careful prior consideration to the costs and benefits associated with potential approaches to incremental cost measurement. The validity of the findings of all cost-measurement exercises, including the resulting projections of support-cost income requirements, should be verified using historical expenditure-income analysis.

10. CEB members support the general caution expressed in recommendation 3 in connection with the use of approaches to incremental cost measurement, and agree that its relative merits versus its costs should be taken fully into account.

Recommendation 4

Legislative organs may wish to consider permitting United Nations system organizations to retain the interest earned on extrabudgetary resources contributed to multi-donor activities where resources are commingled and separate donor-specific accounting is not possible. They may wish to determine that this income should be used to reduce extrabudgetary support costs and that appropriate reporting is made to legislative organs on the relationship between such interest income and support-cost rates.

11. Recommendation 4 is generally acceptable.

Recommendation 5

Executive heads should review the extrabudgetary support-cost legislation applicable to their respective organizations and present proposals to their legislative organs aimed at eliminating contradictions in this legislation.

12. CEB members note the importance of the legislative contradictions first revealed in the responses to the Joint Inspection Unit questionnaire and alluded to in recommendation 5, i.e., the practice in some organizations of the system to charge support costs while at the same time allowing regular budget resources to be used as supplemental funding for the implementation of extrabudgetary activities. Concerned CEB members are aware of such contractions and have duly informed their Member States. CEB members observe that the use of the regular budget to a certain degree to help finance extrabudgetary activities appears to have been generally acceptable to Member States in view of cost-measurement studies which clearly show that the true level of support cost was actually much higher than the authorized recovery rate.

Recommendation 6

Executive heads of the organizations which have not yet done so, should explore the possibility of including, as direct and internal project or programme costs, identifiable elements presently covered by percentage-based support-cost charges.

13. CEB members suggest that further clarification is needed in respect of recommendation 6. While, in general, CEB members welcome, in principle, more flexibility in allocating support-cost elements between the fixed or percentage-based category and the direct and internal project or programme-cost category, some CEB members are concerned that that may lead eventually to overall lowering of the programme support-cost rate, which they would find undesirable. Moreover, such flexibility might lead unnecessarily to negotiations with donors on the cost elements that should, or should not, be charged as direct or internal project or programme costs.

Recommendation 7

The Executive Board of UNDP should review the practice of incorporating indirect support costs for United Nations system organizations as part of the cost of substantive UNDP project inputs and expenditures. The Executive Board may wish to revise this policy in line with the principles described in recommendation 9 below.

14. While recommendation 7 is addressed to the Executive Board of the United Nations Development Programme, some CEB members support its system-wide implications.

Recommendation 8

Executive heads should ensure that exceptional support-cost rates, and the grounds on which they are permitted, are consistent. They should only be granted on the basis of justifiable substantive priorities or a genuine determination that lower support cost rates are appropriate. Furthermore, executive heads granting exceptional support-cost rates on a relatively frequent basis should revise the extrabudgetary support-cost policies to which they are approving exceptions.

Recommendation 9

Legislative organs should enact support-cost policies to ensure that extrabudgetary resources continue to be mobilized and deployed effectively to further the mandated activities in developmental, humanitarian and other substantive areas. These policies should be straightforward, transparent, easy to administer and must provide for a consistent and equitable approach to special arrangements. To this end, legislative organs may wish to consider that:

(a) Extrabudgetary support-cost rates should be established in accordance with the following principles:

- **They should recognize and reflect the relative centrality, and direct benefits, of an extrabudgetary activity to the mandated programme**
- **They should be differentiated to take into account the cost of support as influenced by type of activity, conditionality and the volume of resources**

(b) The authority to establish extrabudgetary support-cost rates in accordance with the principles in (a) above may be delegated to executive heads, with appropriate reporting thereon to legislative organs.

15. The principles stated in recommendations 8 and 9 are generally accepted.

Recommendation 10

In implementing new extrabudgetary support-cost policies and rates established along the lines indicated in recommendation 9 above, executive heads should give careful prior consideration to the effect of these changes upon support cost income, ensuring that a larger proportion of the costs associated with supporting extrabudgetary activities does not fall upon core resources. Any reduction in support-cost income due to reduced support-cost rates should be offset in principle through the achievement of more efficient administrative services.

16. CEB members agree that while striving to achieve more efficient administrative services is an essential core duty of all organizations, one should not jump to the conclusion that any gains thus realized would always positively offset the costs of extrabudgetary activities within the organization and thus automatically lead to an expected lowering of the programme support-cost rates.

Recommendation 11

The United Nations System Chief Executives Board for Coordination (CEB) should ensure that the process for establishing support-cost policies be monitored and regular comparative reporting of such policies be developed and disseminated. The outcome of this reporting should be reviewed by appropriate CEB machinery with a view to harmonizing, to the extent possible, the principles underlying support-cost policies, and by executive heads who should report thereon to their respective legislative organs.

17. Recommendation 11 is generally acceptable. CEB members are expected to determine an appropriate mechanism to monitor, report and review the policy-making processes across the organizations of the system on the management of extrabudgetary resources in the framework of the two high-level committees of CEB.

Recommendation 12

Legislative organs should continue to monitor overall administrative and other support expenditures and to review these components in the budgets of United Nations system organizations. In doing so, Member States should ensure that administrative and other support requirements in core budgets do not increase in proportion to overall core resources.

18. Recommendation 12 is generally acceptable.